

**REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE
AND THE COUNCIL ON THE CITY OF JOHANNESBURG METROPOLITAN MUNICIPALITY**

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the consolidated and separate financial statements of the City of Johannesburg Metropolitan Municipality set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2013 and the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement, statement of comparison of budget and actual amounts for the year then ended, and the notes comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DORA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the City of Johannesburg Metropolitan Municipality (municipality) and its entities as at 30 June 2013, and their financial performance and cash flow for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DORA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

8. As disclosed in note 51 to the consolidated financial statements, the municipality and its entities are the defendants in various lawsuits. The ultimate outcome of these matters cannot currently be determined and reliably measured, therefore no provision for any liabilities that may result has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 52 to the consolidated financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during the year ended 30 June 2013.

Material impairments

10. As disclosed in note 10 to the consolidated financial statements, receivables have significantly been impaired. The impairment of receivables amounts to R14 440 605 000 (2012: R13 360 488 000), which represents 75% (2012: 71%) of consumer debtors. The contribution to the provision for debt impairment in the current year was R1 080 117 000 (2012: R2 869 675 000).

Material losses

11. As disclosed in note 53 to the consolidated financial statements, material losses to the amount of R2 144 771 000 (2012: R1 554 360 000) were incurred as a result of electricity distribution losses. The total technical losses incurred amounted to R754 332 (2012: R709 461). Non technical losses of electricity incurred amounted to R1 390 439 000 (2012: R844 899 000) and are due to non-metering of electricity and unauthorised consumption.
12. As disclosed in note 53 to the consolidated financial statements, material losses amounting to R820 600 000 (2012: R769 300 000) were incurred as a result of water distribution losses. The total technical losses incurred amounted to R389 004 152 (2012: R374 806 920). Non technical losses amounted to R431 600 000 (2012: R443 800 000) and are due to non-metering of water and unauthorised consumption.

Restructuring of entities

13. As disclosed in note 18 to the consolidated financial statements, the municipality finalised the process of re-structuring some of the functions conducted through its municipal entities. This process will result in the legal deregistration of some of the municipal entities.

Additional matter

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

15. The supplementary information set out on pages xx to xx does not form part of the consolidated financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

PAA REQUIREMENTS

16. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

17. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
18. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information* (FMPPi).

The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

19. The material findings are as follows:

Usefulness of information

Presentation

Measures taken to improve performance not disclosed

20. Section 46 of the Municipal Systems Act (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for a total of 44% of the planned targets not achieved by the municipality were not reflected in the annual performance report. This was due to the fact that management was not able to apply the requirements of the FMPPi due to capacity constraints.

Consistency

Changes to indicators not approved

21. Section 25(2) of the MSA determines that an integrated development plan adopted by a municipal council may be amended in terms of section 34 and remains in force until an integrated development plan is adopted by the next elected council. Therefore, if the integrated development plan is changed during the year this process has to take place in accordance with the process as prescribed per section 34 of the MSA. A total of 31% of indicators relating to Economic Growth cluster of the municipality were changed during the year without following the process as prescribed in section 34 of the MSA. This was due to a lack of management review and monitoring of compliance with applicable laws and regulations governing predetermined objectives.

Measurability

Performance targets not specific

22. The FMPPi requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 39% of the targets relating to Sustainable Services were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was not able to apply the requirements of the FMPPi due to capacity constraints.

Performance Indicators/measures not well defined

23. The FMPPi requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 25% of the indicators and targets relating to Sustainable Services cluster of the municipality were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was not able to apply the requirements of the FMPPi due to capacity constraints.

Performance targets not measurable

24. The FMPPi requires that performance targets be measurable. With regards to PIKITUP Johannesburg SOC Ltd the required performance could not be measured for a total of 27% of targets relevant to upgrading of landfill sites, extension of landfill airspace and regular domestic waste collection. This was due to management not implementing all required FMPPi prescripts.

Reliability of information

25. The FMPPi requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.
26. With regards to Johannesburg Metropolitan Bus Services SOC Ltd material targets with respect to Finance, Customer Perspective and Growth and Safety and Security objectives were not reliable. The evidence provided to support performance information reported was not adequate.
27. This was due to the lack of standard operating procedures for the accurate recording of actual achievements and frequent review of validity of reported achievements against source documentation.

Additional matters

28. In addition to the above material findings, I draw attention to the following matters and these do not have an impact on the predetermined objective findings reported above.

Achievement of planned targets

29. Of the total number of 162 targets planned for the year, 71 targets were not achieved by the municipality during the year under review. This represents 44% of the total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.
30. Of the total number of 56 targets planned for the year, 23 targets were not achieved during the year under review for City Power Johannesburg SOC Ltd. This represents 42% of total planned targets that were not achieved during the year under review. This was as a result of the entity not considering the evidential requirements during the annual strategic process.
31. Of the total number of 24 targets planned for the year, nine were not achieved during the year under the review for Johannesburg Water SOC Ltd. This represents 37% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.
32. Of the total number of 18 targets planned for the year, six targets were not achieved during the year under review for PIKITUP Johannesburg SOC Ltd. This represents 33% of total planned targets that were not achieved during the year under review. This was as a result of the institution not considering relevant systems and evidential requirements during the annual strategic planning process.
33. Of the total number of 26 targets planned for the year, 14 of targets were not achieved during the year under review for Johannesburg Metropolitan Bus Services SOC Ltd. This represents 54% of total planned targets that were not achieved during the year under review. This was due to reduced number of bus trips due to aging fleet.
34. Of the total number of 31 targets planned for the year, seven targets were not achieved during the year under review for Johannesburg City Parks Soc Ltd. This represents 23% of total planned targets that were not achieved during the year under review. This was as a result of the institution reprioritisation of the budget during the year under review.

35. Of the total number of 21 targets planned for the year, five targets were not achieved during the year under review for Johannesburg Property Company SOC Ltd. This represents 24% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.
36. Of the total number of 41 targets planned for the year, 20 targets were not achieved during the year under review for Johannesburg Road Agency SOC Ltd. This represents 49% of total planned targets that were not achieved during the year under review. This was as a result of the institution reprioritisation of the budget during the year under review.

Material adjustments to the annual performance report

37. Material audit adjustments in the annual performance report of the municipality were identified during the audit, all of which were corrected by management.

Compliance with laws and regulations

38. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Budget

39. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.
40. The total unforeseen and unavoidable expenditure incurred exceeded R15 million in contraventions of Municipal Budget and Reporting Regulation 72.

Annual financial statements

41. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of revenue, receivables and property, plant and equipment identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Assets management

42. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2) (a) of the MFMA.

Procurement and contract management

- 43. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by National Treasury's Municipal Supply Chain Management regulation (SCM regulation) 13(c).
- 44. Awards were made to providers who are in the service of other state institutions or whose directors/ principal shareholders are in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
- 45. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
- 46. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

Expenditure management

- 47. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

Leadership

- 48. The accounting officer did not adequately exercise oversight responsibility regarding financial and performance reporting. The municipality did not have sufficient monitoring controls to ensure that financial and performance reports submitted for audit are accurate and complete.

Financial and performance management

- 49. There is lack of proper record management system that provides for the maintenance of information reported in the financial statements and performance reporting. Non-compliance with laws and regulations such as the MFMA, SCM regulations and MSA regulations could have been prevented had compliance been properly reviewed and monitored.

OTHER REPORTS

Investigations

50. Twenty cases of alleged irregularities were being investigated. Five of these were conducted by external investigators and the remainder were investigated by the forensic section of the municipality's internal audit division during the 2012-13 financial year. Of these, three have been finalised. The nature of the cases covered a wide spectrum of activities, namely, bribery, theft, financial corruption, tender irregularities and various other issues.

Auditor-General

Johannesburg

14 December 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence